



COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON D.C. 20548

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B-210151

February 14, 1983

The Honorable Charles McC. Mathias, Jr.
Chairman, Joint Committee on Printing
Congress of the United States



120574

Dear Mr. Chairman:

Subject: Review of the Reliability and Accuracy of the
Government Printing Office's Monthly Financial
Statements (GAO/AFMD-83-32)

This report is in response to your July 1, 1982, request (encl. I) asking us to determine the reliability and accuracy of the monthly financial statements prepared by the Government Printing Office (GPO). We reviewed selected statements for April, May, and June 1982 for comparability, consistency, and adequacy of financial disclosures. We performed our review in accordance with generally accepted government auditing standards. The objectives, scope, and methodology of our review are discussed in enclosure II.

During fiscal 1982, GPO furnished monthly statements on request to the Joint Committee on Printing staff members. According to the Public Printer, prior to the JCP request these statements had not been provided to persons outside agency management. He further stated that GPO's monthly statements are, and have been for many years, prepared on a consistent basis solely for internal use, as one of the many sources of information used in the decision-making process. The financial statements previously provided to the JCP comprised the annual statements prepared in conformance with generally accepted accounting principles.

Nevertheless, for external users, specifically the JCP, we found GPO's monthly financial statements of limited use because they (1) are inconsistent, in form and content and in the way they are prepared, with the yearend statements, (2) contain accounting errors, and (3) lack necessary financial disclosures.

Specifically we found that:

--Yearend adjustments to certain revenue and expense accounts were not applied to monthly statements. Because of the significant amount of work required, we did not determine the necessary adjustments. However, their impact would vary depending on the account involved but could be significant considering GPO's low net income.

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- The net loss of \$1,802,000 reported for May 1982 was overstated by \$919,663 due to accounting errors in the revenue billed and payroll expense accounts. When GPO found these errors it treated them as a current operating adjustment instead of correcting the prior month statements. As a result, the monthly statements incorporating the corrections are also misstated. However, the cumulative operating results through June 1982 appear to be fairly stated.
- The monthly financial statements are incomplete as compared to the yearend statements. They do not show the total revolving fund and appropriated fund accounts, and inventory, receivables, and payroll expenses are presented differently than at yearend. These items relate to GPO's financial position, not its results of operations.
- The monthly financial statements do not include essential disclosures, such as footnotes, that are included in the yearend statements and are necessary for a fair and accurate presentation of financial operations.

In reviewing the monthly statements, we also noted that GPO could improve the classification of revenue and expense items on its supplemental statements. If those items were properly classified, the supplemental statements, which reflect revenues and expenses by function, could provide a valuable source of information for analyzing GPO operations.

Further details of our review are discussed in enclosure III.

We are recommending that the Public Printer direct the GPO Controller to take the following actions when monthly financial statements are provided to outside users.

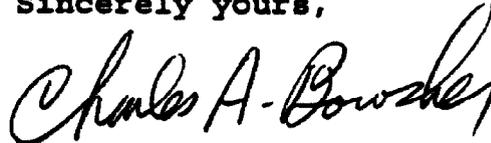
- Determine and reflect the following data in monthly financial statements: adjustments for deferred revenues, building improvement expenditures, sales on consignment, and accounts payable.
- Increase supervision of critical revenue and expense accounting entries, especially when normal accounting procedures are modified or manual or new automated procedures are used.
- Include the total revolving fund and appropriated fund information in the monthly statements.
- Use the same format in the monthly financial statements as in the yearend statements.
- Include all information necessary to fairly and accurately present the monthly financial results.

We have discussed our recommendations with GPO officials. They advised that GPO has taken corrective actions in accounting for deferred revenues and building improvement expenditures. Other actions GPO plans to take are discussed in enclosure III.

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As arranged with your office, we are sending a copy of this report to the Public Printer. We appreciate the efforts of the Public Printer and GPO personnel in providing information for our review.

Sincerely yours,



Comptroller General
of the United States

Enclosures

CHARLES H. WYLLIE, JR., SENATOR FROM CO.
JOHN H. WAGNER, SENATOR FROM VA.
MARK O. MATTHEWS, SENATOR FROM COOL.
ROBERT W. GARDNER, SENATOR FROM ILL.
THOMAS H. POPE, SENATOR FROM ILL.

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LYNN HARTZEL, REPRESENTATIVE FROM ALA.

Congress of the United States
Joint Committee on Printing

U.S. GOVERNMENT PRINTING OFFICE
WASHINGTON, D.C. 20540
FORM 204-001

THOMAS A. KLEIN, STAFF DIRECTOR
ANTHONY J. TRAGLIA, GENERAL COUNSEL

July 1, 1982

The Honorable Charles A. Bowsher
Comptroller General
General Accounting Office
Washington, D.C. 20548

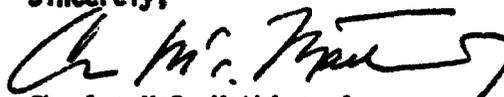
Dear Mr. Comptroller General:

As part of the Joint Committee on Printing's oversight responsibility for the Government Printing Office, we are regularly asked to approve a variety of GPO management decisions. These decisions are often made on the basis of available financial data supplied by the Government Printing Office.

Naturally we wish to be able to rely upon the accuracy of the GPO monthly financial reports and the reports of monthly net losses. As Chairman of the Joint Committee on Printing, I request that GAO review these reports for their overall accuracy and determine if accounts receivable and other items are being recognized in the proper reporting period.

I would appreciate receiving your evaluation of these financial reports as soon as possible.

Sincerely,



Charles McC. Mathias, Jr.
Chairman

OBJECTIVES, SCOPE, AND METHODOLOGY

To meet our objective of assessing GPO's monthly financial statements for usefulness and reliability in making management decisions, we reviewed the following statements for April, May, and June 1982.

Financial Overview of GPO Operations**Printing and Binding Operations:**

- Statement of Revenue and Expense by Function
- Comparison of Revenue by Source
- Comparative Statement of Financial Position
- Comparative Statement of Revenue and Expense

Sales of Publications Operations:

- Comparative Statement of Financial Position
- Comparative Statement of Revenue and Expense

We looked for consistency (with previous months' and annual statements) and for clarity of presentation.

Our review was performed in accordance with generally accepted government auditing standards. Because our scope did not include the expression of an opinion on the fair presentation of the monthly statements, we did not test the accounting records or evaluate the system of internal accounting control to the extent we would have were we to express such an opinion. Because of the time involved, we did not attempt to determine the reclassification and adjusting entries which would have been necessary in preparing monthly statements if they were to be consistent with yearend statements.

We limited our scope to the accounting information processed by GPO's general accounting branch, which maintains the accounting records and prepares the monthly financial statements. We coordinated our work with our ongoing audit of GPO's annual financial statements. We extended our work to other GPO offices when it was necessary to obtain explanations for procedures or variations.

Our primary method of evaluating GPO's monthly statements was to compare them with the latest audited financial statements (fiscal 1981), which were prepared in accordance with generally accepted accounting principles. We analyzed the processes by which entries are posted to the records, the procedures used to compile the statements, and the form and content of the statements. We investigated all major variations among the months and between months and yearend through discussions with accounting personnel and subsequent analysis.

FINDINGS AND RECOMMENDATIONS

To assist in the decisionmaking process, financial information should be accurately and consistently accumulated, summarized, and reported. In addition, adequate disclosures are needed to ensure that statements are complete, relevant, and meaningful, and to avoid erroneous implications. These basic concepts of generally accepted accounting principles are followed by GPO in preparing its yearend financial statements. However, we found the agency did not use the same accounting procedures in preparing its monthly financial statements. We found that the monthly statements included accounting errors, and their format was not comparable to the yearend statements. We also found that disclosures were inadequate for outside users.

NECESSARY ENTRIES NOT APPLIED
TO MONTHLY STATEMENTS

For the three interim financial statements we reviewed, GPO did not determine and record the entries needed to properly account for deferred revenue, building improvement expenditures, sales on consignment, and accounts payable. Since these adjustments are made only at yearend, we were unable to determine the amount by which the monthly statements should have been adjusted.

The entries made to prepare the yearend financial statements are significant to the financial position and revenues and expenses of GPO for several reasons.

- A large portion of GPO's sales program revenue is generated from subscriptions and mail order sales of publications. When the cash is received, GPO records the entire amount collected as revenue. At yearend, the unearned portion of cash received for undelivered subscriptions and mail orders is calculated and recorded as deferred revenue in a liability account. Revenue is then reduced correspondingly. For fiscal 1982, this adjustment reduced net income for the year by \$1.6 million.
- A large portion of GPO's work is procured from commercial contractors. When a commercially procured job is completed and shipped by the contractor, GPO recognizes revenue, expense, and the related payables and receivables for the job. Problems in GPO's accounting system caused payables and receivables for fiscal 1982 to be overstated. At fiscal yearend, GPO identified the overstated payables and receivables and adjusted for them by reducing net income by \$97,371.
- A yearend adjustment that was not made monthly involves sales of consigned goods by agents. Several agencies sell publications on consignment from GPO, but the sales reports from these agencies are not completed until after the month reported. So at yearend, GPO adjusts the amount of sales by these agents to reflect their actual sales for the fiscal

year. The effect of this timing difference on the 3 months we reviewed was an understatement of April and May's net income by \$79,000 and \$259,000, respectively, and an overstatement in June by \$202,000.

--During each fiscal year, GPO expends the costs of building renovations. At yearend, these costs are reviewed and some or all of the costs are reclassified as assets on the balance sheet. Expenses are then correspondingly reduced. The adjustment for the end of fiscal 1982 was \$1,613,274 (\$539,115 recorded in August 1982 and \$1,074,159 recorded in September 1982).

RECOMMENDATION

We recommend that the Public Printer direct the GPO Controller to determine, on a monthly basis, the amounts of material adjustments required for revenue accounts and building improvement expenditures, and to adjust the monthly financial statements accordingly. Although this will require additional accounting procedures including the use of estimates, we believe it will enhance the usefulness and accuracy of GPO's monthly financial statements.

Agency comments

GPO's Controller provided the following responses to our recommendation:

- The computerized subscription sales system has been improved. Subscription sales information will be available on a monthly basis in fiscal 1983. Accounting entries to adjust earned revenue will be based on this information.
- A new voucher payment system (Voucher Processing and Payments System), planned for implementation in April 1983, should eliminate the need to adjust payables for unmatched payments.
- Consigned agent sales will be estimated monthly with periodic adjustments based on actual sales beginning in fiscal 1983.
- A capital improvements-in-process account was reestablished to record the cost of building renovations on a continuing basis.
- The above adjustments and revised procedures may cause issuance of monthly financial statements to be less timely than before.

THE LOSS REPORTED FOR MAY 1982
WAS OVERSTATED DUE TO ACCOUNTING ERRORS
RELATED TO REVENUE BILLED AND PAYROLL EXPENSE

Two accounting errors resulted in a \$919,663 overstatement of the \$1,802,000 net loss reported for May 1982. One of these errors occurred earlier in the year but was not corrected until May, while the other error occurred in May and was corrected at fiscal year-end. Increased management review would help prevent these errors. Nevertheless, errors in a monthly statement that are discovered after that statement is issued should be corrected in subsequent monthly financial statements as prior period adjustments. Such adjustments will enable financial report users to more easily analyze monthly trends.

The first error resulted from GPO changing its usual procedure for recording costs and revenues for printing done for other agencies. GPO uses a complex computer-based system to accumulate costs attributable to each printing job, and to bill agencies for the work done. Normally, costs and related revenues are accumulated in a single account and recorded at the same time. Contrary to this procedure, when GPO contracted for the printing of the 1982 Federal Personnel Manual supplements, numerous accounts were established to record costs and bill agencies requesting the supplements. However, the cost accounting system did not correctly match costs with amounts billed to agencies in the proper accounting periods. This was particularly significant in May 1982 when GPO recorded \$631,000 in costs that should have been matched with revenues recorded in February, March, April, and June. The cumulative effect through June was insignificant, however.

The other error resulted from a monthly adjustment that GPO makes to its accounting records to record salary and wages paid. GPO uses separate automated systems to provide this information--the payroll system and the cost accounting system. Entries are posted to both systems during the month; however, many entries are not made to both systems simultaneously. After the end of the month, the amounts reported by the two systems are reconciled, and an entry is prepared to adjust the labor and wage expenses incurred to the actual payroll disbursements. For the month of May, the entry was incorrectly based on April data, resulting in a \$288,663 overstatement of labor expense.

RECOMMENDATION

We recommend that the Public Printer direct the GPO Controller to institute a stronger management review of critical revenue and expense entries, particularly those that involve manual calculations, human judgment, or new automated procedures, to avoid errors such as those that occurred. In cases where errors do occur, they should be corrected and fully disclosed in subsequent statements as prior period adjustments so that financial report users will not be misled when interpreting the financial statements.

Agency comments

GPO's Controller said he plans to institute stronger management review policies over monthly accounting entries and will disclose the effect of any significant future errors on financial statements that are issued outside the agency.

FORMAT OF MONTHLY STATEMENTS NOT
CONSISTENT WITH YEAREND STATEMENTS

The monthly financial statements do not present all of the GPO revolving fund and appropriated fund accounts as presented in the yearend statements, nor are several other accounts presented the same as at yearend. As a result, monthly statements cannot be compared with the yearend statements.

GPO's primary monthly financial statements include balance sheets and income statements for the printing and binding operations and the sales of publications operations. These two operations, which comprise the revolving fund, generate a portion of their revenue by providing services to each other. Therefore, the monthly statements include revenues earned and expenses incurred between these operations, which are eliminated when the yearend revolving fund statements are prepared. In addition, amounts receivable and payable between the operations are included on the monthly statements, but are eliminated when the yearend statements are prepared.

Appropriated funds are used to reimburse the revolving fund for services performed for appropriated activities. By including appropriated funds in GPO's monthly financial statements, the assets, liabilities, and equity accounts would be increased by the amount of appropriated funds and the resulting financial statements would more closely approximate the yearend results. Including appropriated funds, however, would require eliminating all intrafund receivables, payables, revenues, expenses, and profit.

GPO makes numerous reclassifications of accounts when the yearend financial statements are prepared, and some of these reclassifications are not performed when the monthly statements are prepared. For example, work-in-process and finished-work inventories are reclassified at yearend and included on the balance sheet as an accounts receivable. This reclassification, however, is not performed when the monthly statements are prepared; the two accounts are presented as separate line items. Also, labor costs for the sales of publications operations are presented as personnel compensation and benefits on the monthly statements. This same labor cost is classified as general and administrative expense on the yearend financial statements. These differing procedures result in monthly statements that are difficult to understand and use for projecting results or comparing with yearend statements.

As currently presented, the monthly statements do not allow users to project or compare the financial position and results of

operations of the revolving fund with the yearend statements. Because of the transactions between the printing and binding operations and the sales of publications operations, it is not practical for users to combine the separate sets of statements to determine data for the revolving fund. We believe the differing formats are confusing to readers, and may lead to misinterpreting the results of GPO's operations.

RECOMMENDATION

We recommend that the Public Printer direct the GPO Controller to revise the monthly financial statements issued outside the agency to include the total GPO revolving fund, and the assets, liabilities, appropriations, expenditures, and other accounts for the appropriated funds. In addition, all significant reclassifications made to the yearend statements should also be made for interim financial statements so they will be comparable to the yearend statements.

Agency comments and our evaluation

GPO's Controller disagreed with our recommendation primarily because of the time required to make the monthly statement format comparable with yearend statements.

We recognize that the preparation of monthly statements in a format similar to yearend statements would require additional preparation. However, a similar format would prevent misinterpretation of GPO's operations when monthly financial statements are released outside the agency.

THE MONTHLY FINANCIAL STATEMENTS DO NOT INCLUDE ADDITIONAL DISCLOSURES NECESSARY FOR CLEAR AND FAIR PRESENTATION

The monthly financial statements can be misleading because they omit information normally contained in footnote disclosures that accompany the yearend financial statements. In addition, significant monthly variations which can lead to erroneous interpretations are not explained. We did not find that statement preparation procedures varied much from month to month. We did, however, find that certain factors have a significant impact on monthly net income or loss. For example, two expenses (holiday pay and unsalable publication expenses) and one revenue item (billing variance) vary from month to month and tend to correlate closely with net income.

For each of the nine Federal holidays during the year, GPO pays its employees about \$555,000. For fiscal 1982, we found that GPO's operations showed a net loss for each month in which a holiday falls, except October. This held true for the months we reviewed, as neither April nor June included a holiday and showed no loss, while May included Memorial Day and showed a net loss.

Monthly results are further affected by fluctuations in the expense for unsalable publications, which are publications that are in excess of GPO's needs or are out of date. From October 1981 through March 1982, GPO considered the allowance account for unsalable publications adequate to cover publications destroyed during fiscal 1982. As a result, an additional allowance was not charged against income. Beginning in April 1982, however, GPO decided the allowance was lower than anticipated and resumed building it up through additional charges to income. For April, May, and June 1982, the allowance fluctuated from a low of 12 percent of sales for April to over 19 percent of sales for May. The increased allowance was a major contributor to the loss reflected in the sales of publications operations for May.

Finally, the billing variance can significantly affect net income from month to month. Billing variances increase or decrease the net income when, at the completion of a job, printing specialists review the final charges and revenues from the job. Those specialists can then determine that GPO should bill the requesting agencies more or less than the amount of revenue estimated and recorded during the production process. Revenue from this adjustment increased net income by \$1.4 million and \$1.2 million for April and June, respectively, while it was only increased by \$100,000 for May.

We believe that all relevant disclosures and explanations of major variations should be included in the monthly financial statements to enable financial statement users to make informed decisions.

RECOMMENDATION

We recommend that the Public Printer direct the GPO Controller to include all disclosures in the monthly statements issued outside the agency that would be needed to clearly and fairly present the monthly financial position and results of operations. In addition, we recommend that all significant variations in revenue and expense accounts be disclosed. We further recommend that any changes in assumptions, estimates, allocation bases, or other variables that could result in a significant monthly variation be disclosed and the reason and impact of the change be provided.

Agency comments

GPO's Controller agreed with our recommendation and said future monthly financial statements issued outside the agency will include appropriate footnote disclosures or disclaimers.

GPO SUPPLEMENTAL STATEMENTS CAN BE IMPROVED

GPO provides supplemental information with its monthly financial statements. If that supplemental information were improved, financial statement users would gain greater insight into GPO operations. In addition to "basic statements" (statements of revenue and expense and financial position) GPO prepares monthly statements

of "revenue and expense by function." These latter statements fall into four categories: Washington D.C. central office, commercial, regional printing, and other. GPO printing and binding operations are classified into revenues, expenses, and income for each of the four categories. We believe that some revenue and expense items classified as "other" should be included as "central office" or "commercial" categories.

GPO receives discounts on its purchases of paper and other services, and on printing from commercial contractors. Normal accounting treatment for such reductions in expense is to classify them with the segment that incurred the expense. GPO includes these discounts under the other category rather than reducing the amount of expenses for the central office or commercial categories. Because these discounts can be substantial (for example, \$23,727 and \$328,227 in May for central office and commercial, respectively), they can have a significant effect on the reported results of operations for these functional areas.

Another classification we believe should be clarified is revenue arising from billing variances. Such revenue, as explained in an earlier section, can arise from both central office and commercially procured work, yet is always classified as revenue to central office operations only. The effect of this classification is to give central operations a disproportionate share of billing variance revenues. We believe GPO should identify the specific function to which discounts and billing variances are attributable and report them as such on their statements.

Finally, we believe sales of scrap paper and metal are improperly classified as other revenue. The central office uses paper and metal in its work and is charged with the cost of these materials. We believe the revenue from sales of scrap paper and metal should be classified with the central office operations instead of with other revenue. This item is not as significant as the discounts and billing variances discussed above but we believe a more precise classification of all revenues will improve the value of these statements as decisionmaking tools.

RECOMMENDATION

We recommend that the Public Printer direct the GPO Controller to apply the same concepts of matching revenues and expenses to the supplemental statements that are used for its basic statements.

Agency comments

GPO's Controller agreed with our recommendation and said that beginning in fiscal 1983, the above items will be properly classified in the revised statement of revenue and expense. Also, he said the supplemental statements will no longer be included with the monthly financial statements.